

VZCZCXYZ0005
PP RUEHWEB

DE RUEHGB #1784 1831129
ZNY CCCCC ZZH
P 021129Z JUL 09
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 3773
INFO RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L BAGHDAD 001784

SIPDIS

E.O. 12958: DECL: 07/01/2019
TAGS: [ECON](#) [EPET](#) [ETRD](#) [EWWT](#) [PBTS](#) [PREL](#) [IZ](#) [KU](#)
SUBJECT: IRAQ-KUWAIT: CROSS-BORDER ISSUES AFFECTING IRAQ'S ECONOMY

Classified By: DCM ROBERT FORD FOR REASONS 1.4(b) and (d).

¶1. (C) Iraq's unresolved disputes with Kuwait reflect years of history. Particularly on the issues centered around the land and maritime borders, however, Iraq's concerns touch directly on economics. Iraq's dependence on oil exports, primarily through the south, and on imported foodstuffs and other materials, most of which transit its only major sea port, are behind Iraq's fixation on its limited access to the Persian Gulf. With the UN and P-3 working on a deal to resolve the range of Iraqi-Kuwaiti bilateral issues, including delineation of the maritime border, this message sets out the economic considerations driving the GOI's anxiety over its southern border. (Note: The Iraq-Kuwait land border and the maritime border within the Khor Abdullah waterway were demarcated under UNSCR 833. The UN Iraq-Kuwait Boundary Demarcation Commission, established in 1991, released its final report as an appendix to 833 in 1993, specifying boundary coordinates from the land border trijunction point of Iraq, Kuwait, and Saudi Arabia, through the eastern end of the Khor Abdullah waterway. End note.)

Maritime Border Delineation

¶2. (SBU) Over three quarters of Iraq's oil exports - translating into roughly 68 percent of Iraq's budget revenues and 60 percent of GDP - flows through pipelines from the Al-Faw peninsula to off-shore terminals in the northern Gulf. Access to Iraq's only significant commercial port, at Umm Qasr, is via the narrow northern Gulf and through the Khor Abdullah waterway shared with Kuwait. GOI and Coalition efforts to strengthen Iraq's economic lifeline are hampered by the lack of agreement on a maritime boundary. Wreck removal continues, despite the GOI not having presented a formal MOU to the GOK, but there remain several significant wrecks in the Khor Abdullah waterway that cannot be removed because of ongoing tensions. The Southern Export Redundancy Project (SERP) is a critical effort to increase Iraq's offshore oil export capacity up to 4.5 million b/d, and prevent an economic and ecological disaster that would affect both Iraq and Kuwait if the existing pipelines, which are well beyond their planned life, should fail. Survey work (bathymetric, UXO, geotechnical) is currently proceeding without incident, but future work and construction could be impacted by incidents stemming from the undefined border.

Umm Qasr Port Development

¶3. (SBU) Iraq has very few exports beyond oil. However, the port of Umm Qasr - directly on the Kuwait border on the Khor Zubayr waterway - is critical to Iraqi imports. Up to 85 percent of the food brought into the country enters through Umm Qasr. As the country's only deep water port it is a vital link to the world and a critical element in the expansion of international trade and exports, particularly to Asian markets. The slow development of this port is primarily an Iraqi issue, stemming from a lack of clear

investment and commercialization plans, and a desire by the GOI to build a new port on the Al-Faw peninsula. But the physical proximity of this port to the border, the need for further wreck removal to facilitate increased access to the port, and the role of Umm Qasr as a regional transport hub vis-a-vis other Gulf region facilities position the development of the Umm Qasr port as a cross-border issue requiring further coordination between the two neighbors.

Oilfield Unitization

¶4. (SBU) Three oilfields in southern Iraq, South Rumaila, Zubayr, and Umm Qasr, cross the border into Kuwait. There has never been unitization of these fields, meaning that the two sides have never agreed to an equitable division of the fields' production based on a technical assessment of how much of the reservoirs lie under each country. The lack of unitization of these fields remains an irritant in the bilateral relationship. Since 2003, there have been intermittent discussions among working level technical experts with little to no progress, and the Iraqi side does not appear to be able to move forward on this issue without political cover. The Rumaila and Zubayr fields alone provide 50 percent of Iraq's daily crude production, and 80 percent of the total production in Southern Iraq. Unitization of these fields will preserve the life of the reservoirs and allow both sides to recover more of the resources. The June 30 decision to give a consortium led by BP the rights to negotiate a contract to operate the Rumaila field may lead the GOI to focus more on unitization.

HILL